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Message Text

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62
ACTION SS-30

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FM AMEMBASSY GEORGETOWN
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C O N F I D E N T I A L GEORGETOWN 1653

EXDIS

E.O. 11652: GDS
TAGS: EINV, EMIN, GY
SUBJECT: REYNOLDS
REF: GEORGETOWN 1642 AND 1647

DEPARTMENT PASS OPIC

1. 1. SUMMARY. IN 90-MINUTE MEETING SEPTEMBER 16 WITH MINMINES JACK, AMB. AND OPIC REP CLARIFIED APPARENT MISUNDERSTANDING JACK'S PART RE NATURE GOG ACTION NEEDED TO SATIFY REYNOLDS LEGAL REQUIREMENT FOR INITIATION COMPENSATION TALKS AND URGED THAT THEY BEGIN SOONEST. JACK REVIEWED HISTORY OF GOG ATTEMPTS ACHIEVE PARTICIPATION ARRANGEMENT WITH REYNOLDS AS WELL AS GOG RATIONALE AND APPROACH TO PRODUCTION LEVY. ON COMPENSATION ISSUE, JACK CITED US DOLS 8 MILLION PLUS AS GOG ESTIMATE WRITTEN DOWN BOOK VALUE REYNOLDS INVESTMENT AS OF JAN.

1974 AND INDICATED HIS STRONG DOUBT THAT NEGOTIATIONS COULD PRODUCE AGREEMENT SINCE IN HIS VIEW REYNOLDS WOULD PREFER CASH SETTLEMENT UNDER OPIC POLICY AS LONG AS GOG AGREED VALUATION WERE AT OR BELOW WHAT OPIC WOULD PAY. OPIC REP SUGGESTED JACK BEAR IN MIND OPIC EXPERIENCE IN WORKING OUT FINANCIAL ARRANGEMENTS FOR COMPENSATION SETTLEMENTS. BOTH MB. AND OPIC REP REVIEWED USG POLICY ON TAX LEVIES AS RELATED TO COMPENSATION FOR NATIONALIZED ENTERPRISES.
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END SUMMARY.

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2. OPIC REP HUNT AND I MET MORNING SEPTEMBER 16 WITH MINMINES JACK, WHO HAD WITH HIM HIS PERMSEC C.J. BARKER.
ATMOSPHERE WAS RELAXED AND FRIENDLY THROUGHOUT.

3. AT OUTSET JACK WENT OVER HISTORY OF GOG EFFORTS SINCE 1972 TO DRAW REYNOLDS OUT IN INFORMAL TALKS ON THEIR RESPONSE TO ANNOUNCED GOG POLICY OF MAJORITY PARTICIPATION IN BAUXITE INDUSTRY. THERE WAS NOTHING IN THIS PRESENTATION WE DID NOT ALREADY KNOW AND WE AGREED WITH HIS CONCLUSION THAT REYNOLDS, FOR WHATEVER REASONS, HAS INDICATED IT IS NOT RPT NOT INTERESTED IN GOG PARTICIPATION IN EXISTING ENTERPRISE. SUB-SEQUENT QUESTIONING BY OPIC REP ELICITED STATEMENT BY JACK THAT GOG FOR ITS PART IS NOT RPT NOT INTERESTED IN LESS THAN MAJORITY PARTICIPATION. IN HIS PRESENTATION, JACK PUT PARTICULAR EMPHASIS ON REYNOLDS APPARENT LACK OF INTEREST IN EXPANDING ITS OPERATIONS IN GUYBAU.

4. JACK THEN TURNED TO HISTORY OF PRODUCTION LEVY WHICH AGAIN FOLLOWED FAMILIAR LINES. JACK INSISTED THAT TAX LEVY IS ENTIRELY SEPARATE FROM NATIONALIZATION. HE CITED AS LEGAL BASIS

PROVISIONS OF 1965 AGREEMENT WHICH CALL FOR PERIODIC REVIEW AND FOR CORRELATION WITH BAUXITE PRICES IN AMAICA. WHEN WE RAISED QUESTION OF POSSIBLE DISCRIMITATORY TREATMENT VIS-A-VIS GUYBAU, JACK AT FIRST FELL BACK ON STANDARD DEFENSE THAT SITUATIONS NOT COMPARABLE SINCE GUYBAU IS NOT INTEGRATED PROCESSOR. PRESSED BY OPIC REP AS TO WHETHER GUYBAU ATTEMPTING TO RENEGOTIATE ITS SALES CONTRACTS TO BRING PRICES INTO LINE WITH JAMAICAN BOXITE,

JACK SAID GUYBAU HAD ATTEMPTED TO RENEGOTIATE CONTRACTS FOR 1974 WITHOUT SUCCESS AND THAT IT HAD NOT YET CONCLUDED ANY SALES CONTRACT NEGOTIATIONS FOR 1975 DELIVERY. HE SAID ONE OF MAJOR AGENDA ITEMS FOR NOV. IBA MEETING WOULD BE ATTEMPT TO ACHIEVE HARMONIZED PRICING STRUCTURE FOR BAUXITE.

5. DISCUSSION THEN MOVED TO NEXT STEPS IN NATIONALIZATION PROCESS AND PARTICULARLY NEGOTIATIONS ON COMPENSATION. AFTER JACK DESCRIBED SUBSTANCE OF REYNOLDS SEPTEMBER 12 STATEMENT AS INDICATING THEY WOULD NOT RPT OT BE PREPARED CG ENGAGE IN FORMAL DISCUSSION
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OF COMPENSATION UNTIL AFTER LEGISLATIVE ACT OF NATIONALIZATION.
I SAID PERHAPS HE HAD MISSED SIGNIFICANCE OF REFERENCE IN FINAL PARAGRAPH TO "OTHER ACCEPTABLE PROCEDURES." I TOLD JACK IT WAS OUR UNDERSTANDING THAT REYNOLDS WAS NOT WEDDED TO EITHER THE PROCEDURE IN 1971 LEGISLATIVE ACT OR TO SOME OTHER LEGISLATIVE ENACTMENT INVOLVING PUBLIC KNOWLEDGE. I SAID AS FAR AS USG WAS CONCERNED, AND I PRESUMED GOG AS WELL, IT WOULD BE PREFERABLE TO CONDUCT COMPEOSATION NEGOTIATIONS WITHOUT FANFARE. PROBLEM FOR

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REYNOLDS ISOTO ESTABLISH CLEARLY THAT THEY HAVE UNDERTAKEN COMPENSA-
TION TALKS INVOLUHH RILY, BUT THIS REQIREMENT COULD BE MET BY,
FOR EXAMPLE, A LETTER FROM PM INFORMING REYNOLDS THAT GOG HAS
REACHED FIRM DECISION TO PROCEED WITH NATIONALIZATION. JACK
REACTED IMMEDIATELY AND FAVORABLY BY SAYING THAT REYNOLDS HAD
FAILED TO MAKE THIS CLEAR DURING DISCUSSIONS LAST WEEK. HOWEVER,
HE WENT ON TO SAY THAT HE WAS STILL PESSIMISTIC ABOUT PROSPECTS
OF REACHING AN AGREEMENT WITH REYNOLDS ON COMPENSATION. HE
BRIEFLY WENT OVER THE VARIOUS FORMULAS WHICH MIGHT BE ADOPTED
AS A BASIS FOR CALCULATING COMPENSATION. IN DOING SO HE CITED
FIGURE OF US DOLS 8 MILLION PLUS AS GOG ESTIMATE OF REYNOLDS
WRITTEN DOWN BOOK VALUE IN BEGINNING 1974. REGARDING MULTIPLE
OF EARNINGS APPROACH, JACK SAID PROFITS CITED IN TAX RETURNS
HAD AVERAGED LESS THAN FIGURE NECESSARY TO PUT THEM ABOVE THE US
DOLS 400 THOUSAND MINIMUM TAX BASED ON 1965 AGREEMENT. HE ALSO
ALLUDED TO VALUE OF ORE BODIES WHICH HE SAID WERE BARELY SUFFI-
CIENT TO COVER THE ONE MILLION TON PER YEAR TARGETS IN 1965
AGREEMENT OVER NEXT TWEGE YEARS. IN SHORT, HE SAID THE DIS-
PARITY BETWEEN THE ROUGH CALCULATIONS BASED ON ANY OF THESE FOR-
MULAS AND THE 24 MILLION FIGURE GIVEN BY REYNOLDS LAST WEEK
HAD LED HIM TO CONCLUSION THAT IN FINAL ANALYSIS REYNOLDS WOULD
SIMPLY CASH IN ITS OPIC POLICY LEAVING GOG AND USG TO ATTEMPT
FINAL SETTLEMENT. OPIC REP EXPLAINED NATURE OPIC COVERAGE AND
STANDARDS USUALLY APPLIED BY OPIC IN DETERMINING ACTUAL VALUE
OF INVESTMENT FOR PURPOSES OF COMPENSATION. HE SAID INDEED THERE
WAS SUBSTANTIAL DISPARITY BUT AGREED WITH MY URGING THAT NEGO-
TO DETERMINE EXTENT TO WHICH DIFFERENCES COULD BE RECONCILED
SHOULD BE UNDERTAKEN SOONER THAN LATE OCTOBER. JACKSAID THAT
DATE HAD BEEN RELATED TO HIS UNDERSTANDING THAT REYNOLDS WAS
INSISTING ON FORMAL LEGISLATIVE ACT, BUT THAT IF THIS NOT NECESSARY,
NEGOTIATIONS COULD INDEED BEGIN SOONER. HE SAID THIS NEW ELEMENT
WOULD BE HELPFUL TO CABINET IT ITS DISCUSSION OF REYNOLDS CASE
SEPTEMBER 17.
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6. IN FINAL REFERENCE TO PRODUCTION LEVY, I SAID THAT JACK
SHOULD CLEARLY UNDERSTAND THAT A TAX EVEN AT THE LEVEL OF US DOLS
4 MILLION WOULD INEVITABLY BE REGARDED AS "AFFECTING COMPENSATION".

7. REGARDING TERMS OF COMPENSATION, JACK SAID GOG WOULD UNDER NO
CIRCUMSTANCES BE IN A POSITION TO MAKE CASH PAYMENT AND THAT IT COULD
NOT FORESEE FUTURE PROFITABILITY OF ENTERPRISE AS SUPPORTING PAY-
MENTS BASED ON CURRENT COMMERCIAL INTEREST RATES OR ON TERM
OF LESS THAN 20 YEARS. IN THIS CONNECTION, OPIC REPHANDED JACK
COPY OF OPIC ANNUAL REPORT FOR FY 1973 AND OUTLINIRD BRIEFLY
OPIC EXPERIENCE AND FLEXIBILITY IN ASSISTING GOVTS AND NATIONAZLIZED
ENTERPRISES TO WORK OUT MUTUALLY SATISFACTORY FINANCIAL ARRANGEMENTS
FOR SETTLEMENT OF COMPENSATION
KREBS

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NOTE BY OC/T: NOT PASSED OPIC.

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